

CITY AUDITOR'S OFFICE



SPECIAL REPORT MUNICIPAL COURT MAIL UNIT

Report No. CAO 2300-0001-03

January 5, 2001

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

January 5, 2001

Mayor Oscar B. Goodman
Councilman Gary Reese (Mayor Pro-Tem)
Councilman Michael J. McDonald
Councilman Larry Brown
Councilwoman Lynette Boggs McDonald
Councilman Lawrence Weekly
Councilman Michael Mack
Audit Committee

Subject: CAO 2300-0001-03 - Special Report – Municipal Court Mail Unit

Attached please find the report mentioned above. Management comments are included in Attachment A to the report.

Sincerely,

Radford K. Snelding, CPA, CIA, CFE
City Auditor

Attachments: Report and Attachment A

SPECIAL REPORT
MUNICIPAL COURT MAIL UNIT
CAO 2300-0001-03

BACKGROUND

Municipal Court management recently uncovered evidence of a theft of cash by a Municipal Court mail unit employee during 1999. The City's Municipal Court Administrator requested the City Auditor's Office review evidence of the theft and the adequacy of the mail unit's controls.

OBJECTIVES

Our objectives included the following:

- ? Reviewing evidence of the theft,
- ? Assessing the adequacy of internal controls, and
- ? Identifying procedures that could be improved to reduce the risk of future loss.

SCOPE AND METHODOLOGY

Our work was performed in accordance with applicable generally accepted governmental auditing standards as defined in Operating Instruction A.40 of the City Auditor's Office Operating Instructions Manual. General procedures included:

- ? Interviewing personnel,
- ? Observing operations and activities, and
- ? Reviewing records, reports, and other applicable documentation.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

As a result of work performed, we determined that a theft of funds did occur. Culpability could not be assigned to the responsible employee because of significant internal control weaknesses. Considering the past and current practices of the Municipal Court mail unit, other thefts could have occurred and not been detected. Further, should control issues not be effectively addressed other instances of theft can occur and will likely not be detected.

WEAK INTERNAL CONTROLS

Criteria: A good system of internal controls should provide preventive and detective controls that give relative assurance that only appropriate and authorized transactions occur. Preventive controls are designed to provide a system of checks and balances that prevent irregularities from occurring. Detective controls are designed to provide a system that timely identifies irregularities.

November 21, 2000

Condition:

- ? The Municipal Court mail unit processes both mailed payments and payments made at a customer service window.
- ? A single clerk is permitted to open the mail, log mailed payments, and update the Court system (record the receipt of the payment to the Court record).
- ? Checks and money orders are not immediately restrictively endorsed.
- ? There is no reconciliation of the manual mail log to the daily deposit.
- ? Mail payments received are not always timely deposited due to the various other responsibilities of the mail unit (including working the customer service window).
- ? Inquiries from Court customers regarding unposted mailed payments are not independently researched but are forwarded to the mail unit. Additionally, a formal customer inquiry log is not maintained.
- ? The Court system 1) does not maintain the nature of a payment (i.e. check, money order, credit card, cash), 2) does not print the amount of change due to a customer on the receipt, and 3) permits clerks to process transactions with their cash drawers open.
- ? The sign on the customer service window informing customers of their right to a receipt does not include a phone number to call if they do not receive a receipt.
- ? Policies of the Municipal Court mail unit are not adequately documented.

Effect:

- ? Opportunities for employee theft.

Cause:

- ? Weak and ineffective internal controls.

Recommendations: We recommend the following actions:

1. The functions of opening and logging the mail, posting mailed payments to the Court system, and processing of customer payments at the customer service window should be segregated and performed independently.
2. Two clerks should always open and record mail received by the mail unit.
3. Checks and money orders should be immediately restrictively endorsed.
4. All payments should be posted to the Court system and deposited in a timely manner.
5. Mail revenue (including checks, money orders, and cash) recorded on the mail log and posted to the Court system should be reconciled daily to the day's deposit.
6. Customer inquiries regarding unposted payments should be taken, recorded on a phone log, and investigated and documented by an employee independent of the mail unit.
7. The Court should continue to work with Information Technology in improving its system to include at a minimum 1) identification of the nature of payments, 2) printing of the change amount on receipts, and 3) suspension of processing of transactions while a cash drawer is open.
8. Signs should be conspicuously placed to inform customers of their right to a receipt and a phone number to call if not provided a receipt.
9. The Court's mail unit should document policies and procedures specific to its operations. Reference should be made to the Court's recently released "Cash Handling Procedures"

November 21, 2000

manual in preparing the policies and procedures. Policy and procedure manuals should be made available on-line for access by employees and management.

10. Court Management should review policies and procedures with all Court employees handling cash and instruct them to follow the same.

Prepared by:

Bryan L. Smith, CPA
Internal Auditor

Approved by:

Radford Snelding, CPA, CIA, CFE
City Auditor